

transportation costs and low agricultural productivity. The Program is fully consistent with, and directly supports, the Objectives of raising agricultural productivity and reducing transportation costs.

2. Overview.

(a) **Program Objectives.** The Program involves a series of specific and complementary interventions that the Parties expect will achieve the Agricultural Objective and the Transportation Objective and advance the progress of Honduras towards the Compact Goal, particularly in rural areas.

(b) **Projects.** The Parties have identified, for each Objective, Projects that they intend for the Government to implement, or cause to be implemented, using MCC Funding, each of which is described in the Schedules to this Program Annex. The Schedules to this Program Annex identify the activities that will be undertaken in furtherance of each Project (each, a "**Project Activity**"). Notwithstanding anything to the contrary in this Compact, the Parties may agree to amend, terminate or suspend these Projects or create a new project by written agreement signed by the Principal Representative of each Party without amending this Compact; *provided, however*, any such amendment of a Project or creation of a new project is (i) consistent with the Objectives; (ii) does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of this Compact; (iii) does not cause the Government's responsibilities or contribution of resources to be less than specified in Section 2.2 of this Compact or elsewhere in this Compact; and (iv) does not extend the Compact Term.

(c) **Beneficiaries.** The intended beneficiaries of each Project are described in the respective Schedule to this Program Annex and Annex III to the extent identified as of the date hereof.

(d) **Civil Society.** Civil society shall participate in overseeing the implementation of the Program through its representation on, and as Observers to, the Board, as provided in Section 3(d) of this Program Annex. In addition, the Work Plans or Procurement Plans for each Project shall note the extent to which civil society will have a role in the implementation of a particular Project or Project Activity. Finally, members of civil society may be recipients of training or other public awareness programs that are integral to the Project Activities.

(e) **Monitoring and Evaluation.** Annex III of this Compact generally describes the plan to measure and evaluate progress toward achievement of the Compact Goal and Objectives of this Compact (the "**M&E Plan**"). As outlined in the Disbursement Agreement and other Supplemental Agreements, continued disbursement of MCC Funding under this Compact (whether as MCC Disbursements or Re-Disbursements) shall be contingent, among other things, on successful achievement of targets set forth in the M&E Plan.

3. Implementation Framework.

The implementation framework and the plan for ensuring adequate governance, oversight, management, monitoring, evaluation and fiscal accountability for the use of MCC Funding is summarized below and in the Schedules attached to this Program Annex, or as may otherwise be agreed in writing by the Parties.

(a) **General.** The elements of the implementation framework will be further described in relevant Supplemental Agreements and in a detailed plan for the implementation of the Program and each Project (the "*Implementation Plan*"), which will be memorialized in one or more documents and shall consist of a Financial Plan, Fiscal Accountability Plan, Procurement Plan, Program and Project Work Plans, and M&E Plan. MCA-Honduras shall adopt each component of the Implementation Plan in accordance with the requirements and timeframe as may be specified in this Program Annex, the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time. MCA-Honduras may amend the Implementation Plan or any component thereof without amending this Compact, provided any material amendment of the Implementation Plan or any component thereof has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties. By such time as may be specified in the Disbursement Agreement or as may otherwise be agreed by the Parties from time to time, MCA-Honduras shall adopt one or more work plans for the overall administration of the Program and for each Project (collectively, the "*Work Plans*"). The Work Plan(s) shall set forth the details of each activity to be undertaken or funded by MCC Funding as well as the allocation of roles and responsibilities for specific Project activities, or other programmatic guidelines, performance requirements, targets, or other expectations for a Project.

(b) **Government.**

(i) The Government shall promptly take all necessary and appropriate actions to carry out the Government Responsibilities and other obligations or responsibilities of the Government under and in furtherance of this Compact, including undertaking or pursuing such legal, legislative or regulatory actions, procedural changes and contractual arrangements as may be necessary or appropriate to achieve the Objectives, to successfully implement the Program, and to establish a legal entity, in a form mutually agreeable to the Parties ("*MCA-Honduras*"), which shall be responsible for the oversight and management of the implementation of this Compact on behalf of the Government. The Government shall promptly deliver to MCC certified copies of any documents, orders, decrees, laws or regulations evidencing such legal, legislative, regulatory, procedural, contractual or other actions.

(ii) During the Compact Term, the Government shall ensure that MCA-Honduras is duly authorized and organized and sufficiently staffed and empowered to fully carry out the Designated Rights and Responsibilities. Without limiting the generality of the preceding sentence, MCA-Honduras shall be organized, and have such roles and responsibilities, as described in Section 3(d) of this Program Annex and as provided in applicable law and in governance regulations promulgated in furtherance thereof ("*Governance Regulations*"), which shall be in a form and substance satisfactory to MCC ; *provided, however*, the Government may,

subject to MCC approval, carry out any of the roles and responsibilities designated to be carried out by MCA-Honduras and described in Section 3(d) of this Program Annex or elsewhere in this Program Annex, applicable law, the Governance Regulations, or any Supplemental Agreement prior to and during the initial period of the establishment and staffing of MCA-Honduras, but in no event longer than the earlier of (i) the formation of the Board and the engagement of each of the Officers and (ii) six months from the Entry into Force, unless otherwise agreed by the Parties in writing.

(c) MCC.

(i) Notwithstanding Section 3.1 of this Compact or any provision in this Program Annex to the contrary, and except as may be otherwise agreed upon by the Parties from time to time, MCC must approve in writing each of the following transactions, activities, agreements and documents prior to the execution or carrying out of such transaction, activity, agreement or document and prior to MCC Disbursements or Re-Disbursements in connection therewith:

- (1) MCC Disbursements;
- (2) The Financial Plan and any amendments and supplements thereto;

(3) Agreements (i) between the Government and MCA-Honduras, (ii) between the Government, MCA-Honduras or other Government Affiliate, on the one hand, and any Provider or Affiliate of a Provider, on the other hand, which require such MCC approval under applicable law, the Governance Regulations, Procurement Agreement, Procurement Guidelines or any other Supplemental Agreement, or (iii) in which the Government, MCA-Honduras or other Government Affiliate appoints, hires or engages any of the following in furtherance of this Compact:

- (A) Auditor and Reviewer;
- (B) Fiscal Agent;
- (C) Bank;
- (D) Procurement Agent and Procurement Supervisor;
- (E) Outside Project Manager;
- (F) Implementing Entity; and
- (G) Director, Observer, Officer and/or other key employee or contractor of MCA-Honduras, including any compensation for such person.

(Any agreement described in clause (i) through (iii) of this Section 3(c)(i)(3) and any amendments and supplements thereto, each, a "*Material Agreement*");

(4) Any modification, termination or suspension of a Material Agreement, or any action that would have the effect of such a modification, termination or suspension of a Material Agreement;

(5) Any agreement that is (i) not at arm's length or (ii) with a party related to the Government, including MCA-Honduras, or any of their respective Affiliates;

(6) Any Re-Disbursement (each, a "*Material Re-Disbursement*") that requires such MCC approval under applicable law, the Governance Regulations, Procurement Agreement, Procurement Guidelines or any Supplemental Agreement;

(7) Any terms of reference for the procurement of goods, services or works that require such MCC approval under applicable law, the Governance Regulations, Procurement Agreement, Procurement Guidelines or any Supplemental Agreement (each, a "*Material Terms of Reference*");

(8) The Implementation Plan, including each component plan thereto, and any material amendments and supplements to the Implementation Plan or any component thereto;

(9) Any pledge of any MCC Funding or any Program Assets or any guarantee directly or indirectly of any indebtedness (each, a "*Pledge*");

(10) Any decree, legislation, regulation, contractual arrangement or other document establishing or governing MCA-Honduras, including the Governance Regulations, and any disposition (in whole or in part), liquidation, dissolution, winding up, reorganization or other change of (A) MCA-Honduras, including any revocation or modification of, or supplement to, any decree, legislation, contractual arrangement or other document establishing MCA-Honduras, or (B) any subsidiary or Affiliate of MCA-Honduras;

(11) Any change in character or location of any Permitted Account;

(12) Formation or acquisition of any subsidiary (direct or indirect) or other Affiliate of MCA-Honduras;

(13) Any (A) change of a Director, Observer, Officer or other key employee or contractor of MCA-Honduras, or in the composition of the Board, including approval of the nominee for Chairman, (B) filling of any vacant seat of the Chairman, a Director or an Observer or vacant position of an Officer or other key employee or contractor of MCA-Honduras, or (C) change of the Director of the *Fondo Nacional de Desarrollo Rural Sostenible* (FONADERS);

(14) The management information system to be developed and maintained by the PMU of MCA-Honduras, and any material modifications to such system;

(15) Any decision to amend, supplement, replace, terminate or otherwise change any of the foregoing; and

(16) Any other activity, agreement, document or transaction requiring the approval of MCC in this Compact, applicable law, the Governance Regulations, Procurement Agreement, Procurement Guidelines, Disbursement Agreement, or any other Supplemental Agreement between the Parties.

The Chairman of the Board (the "*Chairman*") and/or the General Director of MCA-Honduras (the "*General Director*") or other designated officer, as provided in applicable law and the Governance Regulations, shall certify any documents or reports delivered to MCC in satisfaction of the Government's reporting requirements under this Compact or any Supplemental Agreement between the Parties (the "*Compact Reports*").

(ii) MCC shall have the authority to exercise its approval rights set forth in this Section 3(c) in its sole discretion and independent of any participation or position taken by the MCC Representative at a meeting of the Board. MCC retains the right to revoke its approval of any matter, agreement or action if MCC concludes, in its sole discretion, that its approval was issued on the basis of incomplete, inaccurate or misleading information furnished by the Government or MCA-Honduras. Notwithstanding any provision in this Compact or any Supplemental Agreement to the contrary, the exercise by MCC of its approval rights under this Compact or any Supplemental Agreement shall not (i) diminish or otherwise affect any obligations or responsibilities of the Government under this Compact, (ii) transfer any such Government obligations or responsibilities to MCC, or (iii) otherwise subject MCC to any liability.

(d) MCA-Honduras.

(i) General. Unless otherwise agreed by the Parties in writing, MCA-Honduras shall be responsible for the oversight and management of the implementation of this Compact. MCA-Honduras shall be governed by the terms and conditions set forth in applicable law and in the Governance Regulations based on the following principles:

(1) The Government shall ensure that MCA-Honduras shall not assign, delegate or contract any of the Designated Rights and Responsibilities without the prior written consent of the Government and MCC. MCA-Honduras shall not establish any Affiliates or subsidiaries (direct or indirect) without the prior written consent of the Government and MCC.

(2) Unless otherwise agreed by the Parties in writing, MCA-Honduras shall consist of (a) an independent board of directors (the "*Board*") to oversee MCA-Honduras' responsibilities and obligations under the this Compact (including any Designated Rights and

Responsibilities) and (b) a management team (the "*Program Management Unit*" or "*PMU*") to have overall management responsibility for the implementation of this Compact.

(ii) Board.

(1) **Formation.** The Government shall ensure that the Board shall be formed, constituted, governed and operated in accordance with applicable law and the terms and conditions set forth in the Governance Regulations and relevant Supplemental Agreements.

(2) **Composition.** Unless otherwise agreed by the Parties in writing, the Board shall consist of (i) five voting members, one of whom shall be appointed the Chairman as provided in applicable law and the Governance Regulations and (ii) non-voting observers (the "*Observers*").

(A) The voting members shall be as follows, provided that the Government members identified in subsections (i) - (iii) below (the "*Government Board Members*") may be replaced by another government official, subject to approval by the Government and MCC:

(i) The Secretary of State of the Office of the Presidency of Honduras;

(ii) The Secretary of State of the Office of Finances of Honduras;

(iii) The Secretary of State of the Office of Industry and Commerce; and

(iv) Two Civil Observers (each, a "*Civil Board Member*").

(B) The Observers shall be:

(i) A representative (the "*MCC Representative*") appointed by MCC;

(ii) A representative (each, a "*Government Observer*") appointed by each of the following Government ministries:

a. The Secretary of State of the Office of Agriculture and Livestock ("*SAG*");

b. The Secretary of State of the Office of Public Works, Transportation and Housing ("*SOPTRAVT*");

c. The Minister of the Honduran Social Investment Fund ("*FHIS*"); and

d. The Secretary of State of the Office of Natural Resources and Environment ("*SERNA*");

(iii) A representative (each, a "*Civil Observer*") appointed by each of the following Honduran civil society organizations:

a. National Anticorruption Council (*Consejo Nacional Anticorrupcion - CNA*);

b. National Convergence Forum (*Foro Nacional de Convergencia - FNC*);

c. Poverty Reduction Strategy Consultative Council (*Consejo Consultivo de la Estrategia de la Reduccion de Pobreza - CCERP*);

d. Honduran Council for Private Enterprise (*Consejo Hondureno de la Empresa Privada - COHEP*); and

e. such other organizations to which the Parties mutually agree.

(C) Each Government Board Member position shall be filled by the individual then holding the office identified and such individuals shall serve in their capacity as the applicable Government official and not in their personal capacity.

(D) Subject to applicable law and the Governance Regulations, the Parties contemplate that the Secretary of State of the Office of the Presidency of Honduras shall initially fill the seat of Chairman.

(E) Each Observer shall have rights to attend all meetings of the Board, participate in the discussions of the Board, and receive all information and documents provided to the Board, together with any other rights of access to records, employees or facilities as would be granted to a member of the Board under applicable law and in the Governance Regulations.

(F) The Chairman, in the presence of the other Government Board Members and the MCC Representative, shall choose by lot the initial two (2) Civil Board Members from among the four (4) Civil Observers who shall serve as voting members of the Board for two non-consecutive terms of fifteen (15) months each beginning on the Entry into Force and the day following the 30-month anniversary of the Compact, respectively. The remaining two (2) Civil Observers shall serve as voting members of the Board for two non-consecutive terms of fifteen (15) months each beginning on the day following the expiration of the 15-month anniversary of the Compact and the 45-month anniversary of the Compact, respectively. This Compact, applicable law, the Governance Regulations and relevant Supplemental Agreements between the Parties shall govern the terms and conditions of the participation of the Civil Observers on the Board. For purposes of this paragraph, a "15-month" term shall equal 457 days for terms 1 and 2 and 456 days for terms 3 and 4.

(3) Role and Responsibilities.

(A) The Board shall oversee the PMU, the overall implementation of the Program and the performance of the Designated Rights and Responsibilities.

(B) Certain actions may be taken, and certain agreements and other documents may be executed and delivered, by MCA-Honduras only upon the approval and authorization of the Board as provided under applicable law and in the Governance Regulations, including each MCC Disbursement Request, selection or termination of certain Providers, any component of the Implementation Plan, certain Re-Disbursements and certain terms of reference.

(C) The Chairman shall certify the approval by the Board of all Compact Reports or any other documents or reports from time to time delivered to MCC by MCA-Honduras

(whether or not such documents or reports are required to be delivered to MCC), and that such documents or reports are true, accurate and complete.

- (D) Without limiting the generality of the Designated Rights and Responsibilities, and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement, the Board shall have the exclusive authority as between the Board and the PMU for all actions defined for the Board under applicable law and in the Governance Regulations and which are expressly designated therein as responsibilities that cannot be delegated further.

(4) Indemnification of MCC Representative. Pursuant to Section 5.5 and Section 5.8 of this Compact, the Government and MCA-Honduras shall hold harmless the MCC Representative for any liability or action arising out of the MCC Representative's role as a non-voting observer on the Board. The Government hereby waives and releases all claims related to any such liability and acknowledges that the MCC Representative has no fiduciary duty to MCA-Honduras. MCA-Honduras shall provide a written waiver and acknowledgement that no fiduciary duty to MCA-Honduras is owed by the MCC Representative. In matters arising under or relating to the Compact, the MCC Representative is not subject to the jurisdiction of the courts or other body of Honduras.

(iii) PMU. Unless otherwise agreed in writing by the Parties, the PMU shall report, through the General Director or other Officer as designated in applicable law and the Governance Regulations, directly to the Board and shall have the composition, roles and responsibilities described below and set forth more particularly in applicable law and the Governance Regulations.

(1) Appointment of General Director. The General Director of MCA-Honduras shall be nominated by the Board after an open and competitive selection process, which nomination shall be subject to MCC approval, and appointed by the President of the Republic of Honduras.

(2) Appointment of Other Officers. The other Officers of MCA-Honduras shall be appointed by the General Director after an open and competitive selection process, which appointment shall be subject to Board and MCC approval.

(3) Composition. The Government shall ensure that the PMU shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, each with such powers and responsibilities as set forth in applicable law and the Governance Regulations and from time to time in any Supplemental Agreement, including without limitation the following: (i) General Director; (ii) Administration and Finance Director; (iii) Monitoring and Evaluation Director; (iv)

Environmental and Social Impact Director, (v) Rural Development Project Director; and (vi) Transportation Project Director (the Rural Development Project Director and the Transportation Project Director are each, a "*Project Director*") (the persons holding the positions in sub-clauses (i) through (vi) shall be collectively referred to as "*Officers*"). The Parties contemplate that for purposes of the initial period of operations, and in no event longer than six months, MCA-Honduras may appoint an acting General Director, subject to the prior approval of MCC; *provided*, during such period, the Board shall ratify the actions of such acting General Director and MCA-Honduras shall select a permanent General Director through a competitive selection process and subject to MCC prior approval in accordance with this Annex I.

(4) Role and Responsibilities.

(A) The PMU shall assist the Board in overseeing the implementation of the Program and shall have principal responsibility (subject to the direction and oversight of the Board and subject to MCC's contractual rights of approval as set forth in Section 3(c) of this Program Annex or elsewhere in this Compact or any relevant Supplemental Agreement) for the overall management of the implementation of the Program.

(B) Without limitation of the foregoing general responsibilities or the generality of the Designated Rights and Responsibilities, the PMU shall develop the components of the Implementation Plan, oversee the implementation of the Projects, manage and coordinate monitoring and evaluation, maintain internal accounting records, conduct and oversee certain procurements, and perform such other responsibilities as set forth in applicable law and the Governance Regulations or delegated to the PMU by the Board from time to time.

(C) The PMU shall have the obligation and right to approve certain actions and documents or agreements, including certain Re-Disbursements, MCC Disbursement Requests, Compact Reports, certain human resources decisions, and certain procurement actions, as provided in applicable law and the Governance Regulations and the Procurement Guidelines.

(e) Outside Project Manager. The PMU shall have the authority to engage qualified entities to serve as outside project managers (each, an "*Outside Project Manager*") in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project; *provided, however*, that the appointment or engagement of any Outside Project Manager after a competitive selection process shall be subject to approval by the Board and MCC prior to such appointment or engagement. Upon Board approval, the PMU may delegate, assign, or

contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the specific Projects; and *provided, further*, that the PMU and the relevant Project Director shall remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract. The Board may, independent of any request from the PMU, determine that it is advisable to engage one or more Outside Project Managers and instruct the PMU or, where appropriate, a Procurement Agent to commence and conduct the competitive selection process for such Outside Project Manager.

(f) **Implementing Entities.** Subject to the terms and conditions of this Compact and any other Supplemental Agreement between the Parties, MCA-Honduras may provide MCC Funding, directly or indirectly through an Outside Project Manager, to one or more Government agencies or to one or more nongovernmental or other public- or private-sector entities or persons to implement and carry out the Projects or any other activities to be carried out in furtherance of this Compact (each, an "*Implementing Entity*"). The Government shall ensure that MCA-Honduras (or the appropriate Outside Project Manager) enters into an agreement with each Implementing Entity, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of such Implementing Entity and other appropriate terms and conditions, such as payment of the Implementing Entity (the "*Implementing Entity Agreement*"). An Implementing Entity shall report directly to the relevant Project Director or Outside Project Manager, as designated in the applicable Implementing Entity Agreement or as otherwise agreed by the Parties.

(g) **Fiscal Agent.** The Government shall ensure that MCA-Honduras engages one or more fiscal agents (each, a "*Fiscal Agent*"), who shall be responsible for, among other things, (i) ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement and other relevant Supplemental Agreements, (ii) Re-Disbursement and cash management, including instructing a Bank to make Re-Disbursements from a Permitted Account (to which the Fiscal Agent has sole signature authority), following applicable certification by the Fiscal Agent, (iii) providing applicable certifications for MCC Disbursement Requests, (iv) maintaining proper accounting of all MCC Funding financial transactions and certain other accounting functions, (v) producing reports on MCC Disbursements and Re-Disbursements (including any requests therefore) in accordance with established procedures set forth in the Disbursement Agreement, the Fiscal Agent Agreement or any other relevant Supplemental Agreements, and (vi) funds control. Upon the written request of MCC, the Government shall ensure that MCA-Honduras terminates a Fiscal Agent, without any liability to MCC, and the Government shall ensure that MCA-Honduras engages a new Fiscal Agent, subject to the approval by the Board and MCC. The Government shall ensure that MCA-Honduras enters into an agreement with each Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions, such as payment of the Fiscal Agent ("*Fiscal Agent Agreement*").

(h) **Auditors and Reviewers.** The Government shall ensure that MCA-Honduras carries out the Government's audit responsibilities as provided in Sections 3.8(d), (e) and (f) of this Compact, including engaging one or more auditors (each, an "*Auditor*") required by Section 3.8(d) of this Compact. As requested by MCC in writing from time to time, the Government

shall ensure that MCA-Honduras shall also engage an independent (i) reviewer to conduct reviews of performance and compliance under this Compact pursuant to Section 3.8(f) of this Compact, which reviewer shall (A) conduct general reviews of performance or compliance, (B) conduct environmental audits, and (C) have the capacity to conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III, and/or (ii) an independent evaluator to assess performance as required under the M&E Plan (each, a "*Reviewer*"). MCA-Honduras shall select the Auditor(s) or Reviewers in accordance with the Governance Regulations or relevant Supplemental Agreement. The Government shall ensure that MCA-Honduras enters into an agreement with each Auditor or Reviewer, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions such as payment of the Auditor or Reviewer (the "*Auditor / Reviewer Agreement*"). In the case of a financial audit required by Section 3.8(f) of this Compact, such Auditor / Reviewer Agreement shall be effective no later than 120 days prior to the end of the relevant fiscal year or other period to be audited; *provided, however*, if MCC requires concurrent audits of financial information or reviews of performance and compliance under this Compact, then such Auditor / Reviewer Agreement shall be effective no later than a date agreed by the Parties in writing.

(i) **Procurement Agent.** If requested by MCC, the Government shall ensure that MCA-Honduras engages one or more procurement agents (each, a "*Procurement Agent*") to carry out and/or certify specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Honduras, any Outside Project Manager or Implementing Entity. The role and responsibilities of such Procurement Agent and the criteria for selection of a Procurement Agent shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Honduras enters into an agreement with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Agent (the "*Procurement Agent Agreement*"). Any Procurement Agent shall adhere to the procurement standards set forth in the Procurement Guidelines and ensure procurements are consistent with the procurement plan (the "*Procurement Plan*") adopted by MCA-Honduras, which plan shall forecast the upcoming eighteen month procurement activities and be updated every six months.

(j) **Procurement Supervisor.** If requested by MCC, the Government shall ensure that MCA-Honduras engages one or more procurement supervisors (each, a "*Procurement Supervisor*") to supervise specified procurement activities in furtherance of this Compact on behalf of the Government, MCA-Honduras, any Outside Project Manager or any Implementing Entity. The role and responsibilities of such Procurement Supervisor and the criteria for selection of a Procurement Supervisor shall be as set forth in the applicable Implementation Letter or Supplemental Agreement. The Government shall ensure that MCA-Honduras enters into an agreement with the Procurement Supervisor, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Supervisor with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions, such as payment of the Procurement Supervisor (the "*Procurement Supervisor Agreement*"). Any Procurement Supervisor shall ensure that the procurement standards set forth in the

Procurement Guidelines are adhered to and ensure procurements are consistent with the Procurement Plan.

4. **Finances and Fiscal Accountability.**

(a) **Financial Plan.**

(i) **Multi-Year Financial Plan.** The multi-year financial plan for the Program and for each Project (the "*Multi-Year Financial Plan*") is summarized in Annex II to this Compact.

(ii) **Spending Plan.** During the Compact Term, the Government shall ensure that MCA-Honduras delivers to MCC timely financial plans that specify, respectively, the annual and quarterly detailed spending requirements for the Program and each Project (including monitoring, evaluation and administrative costs), projected both on a commitment and cash requirement basis (each a "*Spending Plan*"). Each Spending Plan shall be delivered by such time as specified in the Disbursement Agreement or as may otherwise be agreed by the Parties. The Multi-Year Financial Plan and each Spending Plan and each amendment, supplement or other change thereto are collectively, the "*Financial Plan*."

(iii) **Expenditures.** No financial commitment involving MCC Funding shall be made, no obligation of MCC Funding shall be incurred, and no Re-Disbursement shall be made or MCC Disbursement Request submitted for any activity or expenditure, unless the expense is provided for in the applicable Spending Plan and unless uncommitted funds exist in the balance of the Spending Plan for the relevant period or unless the Parties otherwise agree in writing.

(iv) **Modifications to Financial Plan.** Notwithstanding anything to the contrary in this Compact, MCA-Honduras may amend or supplement the Financial Plan or any component thereof without amending this Compact, provided any material amendment or supplement has been approved by MCC and is otherwise consistent with the requirements of this Compact and any relevant Supplemental Agreement between the Parties.

(b) **Disbursement and Re-Disbursement.** The Disbursement Agreement (and disbursement schedules thereto), as amended from time to time, shall specify the terms, conditions and procedures on which MCC Disbursements and Re-Disbursements shall be made. The obligation of MCC to make MCC Disbursements or approve Re-Disbursements is subject to the fulfillment, waiver or deferral of any such terms and conditions. The Government and MCA-Honduras shall jointly submit the applicable request for an MCC Disbursement (the "*MCC Disbursement Request*") as may be specified in the Disbursement Agreement. MCC will make MCC Disbursements in tranches to a Permitted Account from time to time as provided in the Disbursement Agreement or as may otherwise be agreed by the Parties, subject to Program requirements and performance by the Government, MCA-Honduras and other relevant parties in furtherance of this Compact. Re-Disbursements will be made from time to time based on requests by an authorized representative of the appropriate party designated for the size and type of Re-Disbursement in accordance with the Governance Regulations and Disbursement

Agreement; *provided, however*, unless otherwise agreed by the Parties in writing, no Re-Disbursement shall be made unless and until the written approvals specified herein or in the Governance Regulations and Disbursement Agreement for such Re-Disbursement have been obtained and delivered to the Fiscal Agent.

(c) **Fiscal Accountability Plan.** By such time as specified in the Disbursement Agreement or as otherwise agreed by the Parties, MCA-Honduras shall adopt as part of the Implementation Plan a fiscal accountability plan that identifies the principles and mechanisms to ensure appropriate fiscal accountability for the use of MCC Funding provided under this Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the administration of grants or cooperative agreements and the procurement of goods and services for the accomplishment of the Objectives (the "*Fiscal Accountability Plan*"). The Fiscal Accountability Plan shall set forth, among other things, requirements with respect to the following matters: (i) funds control and documentation; (ii) separation of duties and internal controls; (iii) accounting standards and systems; (iv) content and timing of reports; (v) policies concerning public availability of all financial information; (vi) cash management practices; (vii) procurement and contracting practices, including timely payment to vendors; (viii) the role of independent auditors; and (ix) the roles of fiscal agents and procurement agents.

(d) **Permitted Accounts.** The Government shall establish, or cause to be established, such accounts (each, a "*Permitted Account*," and collectively "*Permitted Accounts*") as may be agreed by the Parties in writing from time to time to receive MCC Disbursements, including:

(i) Either (A) a single, completely separate non-interest bearing account at the Honduran Central Bank, or (B) a single, completely separate U.S. Dollar interest-bearing account at a commercial bank that is procured through a competitive process, whichever bank offers terms that are the most economical to MCC;

(ii) If necessary, an interest-bearing local currency of Honduras account (the "*Local Account*") at the bank selected under Section 4(d)(i) above to which the Fiscal Agent may authorize transfer from any U.S. Dollar Permitted Account for the purpose of making Re-Disbursements payable in local currency; and

(iii) Such other interest-bearing accounts to receive MCC Disbursements in such bank as the Parties mutually agree upon in writing.

No other funds shall be commingled in a Permitted Account other than MCC Funding and Accrued Interest thereon. All MCC Funding held in an interest-bearing Permitted Account shall earn interest at a rate of no less than such amount as the Parties may agree in the respective Bank Agreement or otherwise. MCC shall have the right, among other things, to view any Permitted Account statements and activity directly on-line or at such other frequency as the Parties may otherwise agree. By such time as shall be specified in the Disbursement Agreement or as otherwise agreed by the Parties, the Government shall ensure that MCA-Honduras enters into an agreement with each Bank, respectively, satisfactory to MCC, that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other

terms related to the Permitted Account, respectively (each a "*Bank Agreement*"). For purposes of this Compact, any bank holding an account referenced in Section 4(d) of this Program Annex are each a "*Bank*" and, are collectively referred to as the "*Banks*."

(e) Currency Exchange. The Bank shall convert MCC Funding to the currency of Honduras at a rate to which the Parties mutually agree with the Bank in the Bank Agreement.

5. Transparency; Accountability.

Transparency and accountability to MCC and to the beneficiaries are important aspects of the Program and Projects. Without limiting the generality of the foregoing, in an effort to achieve the goals of transparency and accountability, the Government shall ensure that MCA-Honduras:

(a) Establishes an e-mail suggestion box as well as a means for other written comments that interested persons may use to communicate ideas, suggestions or feedback to MCA-Honduras;

(b) Considers as a factor in its decision-making the recommendations of the Observers, particularly in MCA-Honduras's deliberations over pending key PMU decisions and key Board decisions as shall be specified in applicable law and the Governance Regulations;

(c) Develops and maintains a website (the "*MCA-Honduras Website*") in a timely, accurate and appropriately comprehensive manner, such MCA-Honduras Website to include postings of information and documents in English and Spanish; and

(d) Posts on the MCA-Honduras Website and otherwise makes publicly available from time to time the following documents or information, including by posting on the MCA-Honduras Website, with links to and from the official website of the Government (www.casapresidencial.hn) and the website of the Embassy of Honduras in the United States (<http://www.hondurasemb.org>), from time to time:

(i) All minutes of the meetings of the Board;

(ii) The M&E Plan, as amended from time to time, along with periodic reports on Program performance;

(iii) All relevant Environmental Impact Assessments and supporting documents;

(iv) Such financial information as may be required by this Compact or as may otherwise be agreed from time to time by the Parties;

(v) All Compact Reports;

(vi) All audit reports by an Auditor and any periodic reports or evaluations by a Reviewer;

(vii) A copy of the Disbursement Agreement, amended from time to time;

(viii) A copy of the Procurement Agreement (including Procurement Guidelines), each Procurement Plan, as amended from time to time, all procurement agreements (including policies, standard documents, procurement plans, and required procedures), bid requests, and awarded contracts; and

(ix) A copy of any legislation and other documents related to the formation, organization and governance of MCA-Honduras, including the Governance Regulations, and any amendments thereto.

SCHEDULE 1 to ANNEX I

RURAL DEVELOPMENT PROJECT

This Schedule 1 generally describes and summarizes the key elements of a rural development Project that the Parties intend to implement in furtherance of the Agricultural Objective and Transportation Objective (the "*Rural Development Project*"). Additional details regarding the implementation of the Rural Development Project will be included in the Implementation Plan and in relevant Supplemental Agreements.

1. Background.

Honduras enjoys a comparative advantage in horticulture given its rich growing conditions, year-long growing season, and close proximity to the U.S. market. Despite this advantage, Honduran farmers predominantly grow basic grains because horticultural crops require more sophisticated techniques and infrastructure for both their production and marketing. In addition, lack of access to credit makes it more difficult for farmers to meet the higher working capital requirements of horticultural crops and poor transportation infrastructure increases the costs of getting crops to market and inputs to the farm-gate. To help producers to diversify into high-value horticultural crops and to increase their productivity and competitiveness, the Honduran PRS contemplates providing them with better access to market-support services throughout the production cycle (e.g., technical assistance in market research, production, post-harvest support and processing), financing (e.g., increase credit from financing sources), technology (e.g., help producers obtain and use on-farm irrigation systems), and infrastructure (e.g., build and maintain rural roads, improve the efficiency of property registries).

2. Summary of Project Activities.

The Rural Development Project is designed to increase the productivity and improve the competitiveness of owners, operators and employees of small- and medium-size farms covered by the Program ("*Program Farmers*"). The key activities of the Rural Development Project include:

(a) Farmer Training and Development. The provision of technical assistance in the production and marketing of high value horticultural crops.

(b) Farmer Access to Credit. The provision of technical assistance to financial institutions, loans to such institutions and support in expanding the national lien registry system.

(c) Farm to Market Roads. The construction and improvement of feeder roads to connect farms to markets.

(d) Agricultural Public Goods Grant Facility. The provision of grants to fund agricultural "public goods" projects that the private sector cannot provide on its own.

The following summarizes the contemplated Rural Development Project Activities. The M&E Plan (described in Annex III) will set forth anticipated results and, where appropriate, regular benchmarks that may be used to monitor implementation progress. Performance against the benchmarks and the overall impact of the Rural Development Project will be assessed and reported at the intervals to be specified in the M&E Plan or as otherwise agreed by the Parties from time to time. The Parties expect that additional benchmarks will be identified during the implementation of the Rural Development Project. Estimated amounts of MCC Funding for each Project Activity for the Rural Development Project are identified in Annex II of this Compact. Conditions precedent to each Rural Development Project Activity and sequencing of the Rural Development Project Activities shall be set forth in the Disbursement Agreement or other relevant Supplemental Agreements.

(a) *Activity: Farmer Training and Development*

MCC Funding will fund training provided by one or more service providers ("Agribusiness Service Providers") with proven experience in providing market-oriented technical assistance ("Agribusiness Assistance") that combines training in agronomy and small business skills relevant to small- and medium-sized farms. Specifically, the Agribusiness Service Providers will:

- (i) Identify existing market demand for commercial crops that Program Farmers can supply;
- (ii) Identify Program Farmers who are willing and able to supply such demand;
- (iii) Develop business plans that enable Program Farmers to meet such demand;
- (iv) Work with lenders, suppliers and customers of Program Farmers to ensure that such business plans are realistic;
- (v) Develop instruments (e.g., purchase contracts) and market-based support services (e.g., farmer associations, processing arrangements) to help Program Farmers to successfully execute their business plans;
- (vi) Help Program Farmers obtain credit to finance their business plans;
- (vii) Provide agronomic and business assistance to Program Farmers, including training in complying with sanitary and phytosanitary standards, for a period of up to three years to help them to successfully execute their business plans;
- (viii) Ensure that Program Farmers employ environmentally sustainable agricultural practices; and

(ix) Certify that no crops supported by the Rural Development Project will substantially displace U.S. production.

The *expected results* from, and the *key benchmarks* to measure progress on, these activities are set forth in Annex III.

(b) *Activity: Farmer Access to Credit*

MCC Funding will fund the following activities to increase the supply of credit to rural borrowers, including farmers and other agribusiness borrowers:

(i) Technical assistance to help financial institutions better analyze credit risk and administer credit in rural communities;

(ii) Loans in an aggregate principal amount of up to \$6 million that MCA-Honduras will make to regulated financial institutions to either lend directly to Program Farmers or on-lend to a rural financial institution that, in turn, will lend to Program Farmers. The Government shall ensure that all such loans mature no later than six months prior to the expiration of the Compact Term;

(iii) The expansion of the national property registration system to include a new registry of movable property and liens, interconnecting this new registry with the land title registry and commercial (mercantile) registry, and connecting registry system offices with each other and key clients; and

(iv) Technical assistance to develop collateral-based credit products that will improve access to credit by farmers, among others;

Loan repayments from financial institutions to MCA-Honduras may be used to fund Rural Development Project Activities in the following order, as specified in the Financial Plan or as otherwise agreed by the Parties:

(i) \$1 million to fund the Agricultural Public Goods Grant Facility;

(ii) \$3 million to fund the Farmer Training and Development Project Activities; and

(iii) \$2 million in grant funding to augment the capital base of non-profit financial institutions that successfully manage the loans to Program Farmers described above.

The *expected results* from, and the *key benchmarks* to measure progress on, these activities are set forth in Annex III.

(c) *Activity: Farm to Market Roads*

MCC Funding will fund the construction or improvement of approximately 1,500 kilometers of rural roads to improve the access of rural communities (including Program Farmers) to markets and to social services. Specific roads will be funded in two phases: (i) a pilot phase that will use approximately 30% of the total funds allocated to the Farm to Market Roads Project Activity; and (ii) a second phase that will use the balance of such funds to build the roads that MCA-Honduras selects.

Subject to the prior approval of MCC, MCA-Honduras will select Farm to Market Roads among the range of proposed rural roads that promise the highest economic rate of return among such roads (12% minimum rate of return), subject to the conditions that each selected road must:

- (i) Conform to the Environmental Guidelines;
- (ii) Conform to the World Bank policy on Involuntary Resettlement, where relevant;
- (iii) Be fully designed to the satisfaction of MCA-Honduras and MCC;
- (iv) Be properly documented to the satisfaction of MCA-Honduras and MCC, including having an agreement in which the applicable municipality agrees to assume the cost of permanently maintaining the road and to pay 20% of the cost of upgrading the road to a Permitted Account; and
- (v) Have been approved by a rural road supervisory firm and the rural roads advisory committee, which committee will consist of representatives from the PMU, FHIS, SAG, SOPTRAVI, SERNA and the Association of Honduran Municipalities (AHMON).

The *expected results* from, and the *key benchmarks* to measure progress on, these activities are set forth in Annex III.

(d) *Activity: Agricultural Public Goods Grant Facility*

MCC Funding will fund a small competitive grants facility that will provide funding to support projects that enhance and accelerate the development of market-based commercial agriculture, particularly the horticultural sector. The Parties expect that these grants will fund two types of projects:

- (i) Pure Public Goods. Examples of "pure public goods" include development of improved crop germ plasm or animal genetics in sub-sectors with competitive potential. Support to such initiatives may be granted without any requirement for repayment, subject to demonstrating that the benefit stream will surpass the cost; and

(ii) Quasi-Public Goods. Examples of "quasi-public goods" include collective infrastructure projects that benefit groups of producers but cannot be financed by individual farmers, such as upgrades or extensions to district irrigation systems, construction of primary power supply lines, collective cold storage and packing facilities, area pest or disease control measures, and other similar investments. Cost-sharing may be appropriate for some categories of investments.

The facility will be managed by the Rural Development Project Director within the PMU, subject to oversight by a committee (the "**Grant Committee**") consisting of the Rural Development Project Director, a representative from SAG, and three representatives from civil society, whose selection and compensation must be approved by MCC.

Invitations to submit proposals for up to \$1 million per grant will be publicly posted. The facility's operating rules, subject to the prior approval of the Board and MCC, shall ensure fair and transparent selection criteria and procedures and shall conform to the Environmental Guidelines and other limitations on the use of MCC Funding. The Parties expect that a total of up to \$9 million in grants of MCC Funding will be made during the Compact Term, subject to receiving sufficient satisfactory proposals. Funding decisions will be taken by a majority of the members of the Grant Committee, subject to the approval of MCC.

The *expected results* from, and the *key benchmarks* to measure progress on, these activities are set forth in Annex III.

3. Beneficiaries.

The principal beneficiaries of the Rural Development Project are expected to be: (i) Program Farmers, due to improvements in the productivity and business skills of such producers; (ii) the communities of the Program Farmers, due to increased employment and reduced transportation costs to markets and social service delivery points (e.g., hospitals, schools); and (iii) the agricultural sectors, due to public goods and quasi-public goods funded by the Agricultural Public Goods Grant Facility. When MCA-Honduras identifies potential areas where the Farmer Training and Development, Agricultural Public Goods Grant Facility and Farm to Market Roads may be provided, the Government shall ensure that MCA-Honduras provides to MCC information on the population of such areas, disaggregated by gender, income level and age, where possible. After such areas have been selected: (i) the Government shall ensure that MCA-Honduras presents to the Board and MCC (a) a detailed description of the intended beneficiaries and (b) the methodology used to determine the intended beneficiaries within thirty (30) days after the selection of such areas and completion of the analysis of the intended beneficiaries therein, disaggregated, to the maximum extent practicable, by income level, gender, and age; (ii) the Parties shall agree upon the description of the intended beneficiaries; and (iii) the Parties will make publicly available a more detailed description of the intended beneficiaries of the Program, including publishing such description on the MCA-Honduras Website.